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C O N F I D E N T I A L SECTION 01 OF 03 SHENYANG 000219

SIPDIS

DEPARTMENT FOR EAP/K, EAP/CM, INR  
MOSCOW PASS TO VLADIVOSTOK

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION  
TAGS: [CH](#) [ECON](#) [EFIN](#) [EIND](#) [EMIN](#) [ETRD](#) [KN](#) [KS](#) [PGOV](#) [PREL](#) [RS](#)  
SUBJECT: CHINESE INVESTMENT IN NORTH KOREA: VIEWS FROM THE  
BORDER

REF: A. SHENYANG 167  
[1](#)B. SHENYANG 170  
[1](#)C. SHENYANG 92  
[1](#)D. SHENYANG 164  
[1](#)E. SEOUL 1866  
[1](#)F. SHENYANG 185

Classified By: Consul General Stephen B. Wickman. Reasons 1.4(b/d).

[1](#)1. (C) SUMMARY: Chinese investment in North Korea appears to be a largely state-directed affair, supporting government objectives to engage in resource diplomacy. Chinese businesses consider business in North Korea to be unprofitable, are wary of entering the market, and will only do so with Chinese governmental support or strong personal ties. Legitimate DPRK investments in China are largely limited to the service industry, but DPRK trade delegations are more active today than in recent memory. Border trade and tourism shutdowns in the winter are annual and regular events. END SUMMARY.

[1](#)2. (U) ConGenOff traveled to Dandong City in Liaoning Province November 24-25 and Jilin Province's Yanbian Korean Autonomous Prefecture and Mudanjiang City in Heilongjiang Province December 6-15 to meet local contacts.

HOW THE CHINESE INVEST IN NORTH KOREA  
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[1](#)3. (C) A Sino-Korean trader and native of Dandong told us that there are two ways for Chinese entities to initiate investment in North Korea. One was to contact the Chinese Embassy in Pyongyang and work through the DPRK Trade Ministry. The other was for Sino-Koreans to contact the North Korean Veterans Committee's economic outreach section or other unification-affiliated organization as overseas Koreans or as individuals having personal or family contacts. The DPRK side would collect the inquiry and decide, in consultation with relevant organs, to assign an appropriate investment project.

[1](#)4. (C) To date, the safest and most successful investments for Chinese are in minerals and the procurement of state goods -- i.e., in the import-export trading companies that bring in items desired by the North Korean elite. Risky as they are, in the overall hierarchy of risky North Korean investments, these were the best bets. Sino-Korean-run business is almost exclusively trade-related with little investment. Han Chinese businessmen, who now dominate the Dandong channel, are equally dependant upon trade and avoid

investment. Our contact said the only major Chinese investment in the DPRK is largely a state-to-state endeavor or sometimes pursued by people with strong personal networks.

15. (C) Our contact said that the Sino-Korean Traders' Association in Dandong had recently made a big breakthrough, establishing in the last month an unprecedented and ambitious joint-holding company with shares to invest in North Korea -- each share pegged at RMB 500,000 (USD 73,200). To date, the holding company had gathered more than ten shareholders. As the terms stood, the DPRK side was offering a total guarantee on the maintenance of the original capital investment, with no caveats. He said that because each of the shareholders was a Sino-Korean trader having a good reputation in the DPRK and China, the DPRK side would find it near impossible to swindle the shareholders because of potential fallout via negative publicity. He was confident that this deal was the next best thing to a guaranteed profit.

CHINESE GOVERNMENT: SUPPORTS RESOURCE DIPLOMACY  
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16. (C) A Sino-Korean trader in Yanji told us that his company, which had long forsaken trade with North Korea due to its unprofitability, was going to re-enter the market with the support of the Chinese government. He said that the Jilin Provincial Government had recently asked him to look into re-opening the Sanhe-Hoeryong Warehouse that his company held the option on, in anticipation of ramped-up trade. He said the provincial capital told him it would

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direct national-level resources to resurrecting this project. The trader suspected that this renewed push was spurred by the Chang-Ji-Tu project (Ref A) and also linked to Wen Jiabao's October visit to Pyongyang. Most importantly, it was part of a Chinese national-level goal to engage in resource diplomacy with North Korea. As a result, his company, which had given up on DPRK business for the last five years, is now looking to North Korea.

17. (C) Our Dandong contact said that the Chinese government was fully aware of and condoned unofficial (read: illegal) trade interactions, business networks, and channels for transferring capital (Ref B). However, he said the Chinese authorities will refuse to advocate for any investors who did not pre-register their business activities with the appropriate local Chinese external economics and trade bureau. A Longjing-based Sino-Korean trader who visits North Korea several times per week repeated this rule, saying she had once considered investing in the DPRK but that rules stipulated that one had to go through the Chinese Ministry of Finance and Commerce to register one's intent, which she did not want to do.

18. (C) Echoing our Yanji contact's views on the importance of minerals, our Dandong contact said one of the most frequent trade and barter items handed over by the North Koreans is minerals. To guarantee the maintenance of investment capital, DPRK organizations simply compensate the Chinese side with minerals rather than RMB or hard currency. Coal is said to be the prime target for Chinese traders, even though our contact said North Korea's total proven reserves were only about 4 billion tons, sufficient only to the entire Chinese economy for a little over a year. Other strategic rare earth metals are also bartered this way, but our contact said coal and iron seem to hold little future.

19. (C) The North Korean authorities seem apprehensive about the amounts of minerals flowing out to China, and our contact said that the DPRK has issued a notice prohibiting the free, unregulated export of coal, which is most frequently used in trade and barter deals. As a result, he said it appears that the outflow has been reduced. The flow

of other strategic rare earth metals seems unchanged, according to our contact.

#### CHINESE RELUCTANCE TO INVEST IN NORTH KOREA

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¶10. (C) One of Heilongjiang Province's ten wealthiest businessmen, a Sino-Korean trader from Mudanjiang, said that DPRK officials continually visit him in Mudanjiang to ask for investment. Like the Yanji-based trader above and numerous other businessmen in Northeast China, however, this businessman sees investing in the DPRK as unprofitable and refuses to do so (Ref C). He would rather just stay "friends," so he restricts his "investments" to "donations" of money and equipment to the North Korean people, and prominently displays a picture of him with Korean Workers' Party Secretary Kim Ki-nam, whom he calls his "friend." He says that in the past, USD 500 put into a bureaucrat's pocket would make that person a "friend for life."

¶11. (C) A Sino-Korean businessman in Tumen had a similar story about buying gratitude with greenbacks. He recounted that about ten years earlier, returning from visiting relatives in North Korea on a train, he met a young man whom he pegged to be a member of the elite. After befriending the young man, our contact ended up sending USD 10,000 to aid a village project that the young man was promoting. Soon thereafter, the young man repaid him and subsequently looked him up again a few years later after having achieved a high position in the DPRK bureaucracy. A Tianjin-based Sino-Korean trader running mines in North Korea says his reasons for investing in North Korea are simple. He is "looking towards the future" but is actually investing "out of sympathy for the North Korean people." He called his current operation a "money pit" and joined all of our contacts in agreeing that without Chinese government support, business in North Korea was unpredictable, unreliable, and generally difficult to the point of

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discouraging business.

#### DPRK: LOOKING FOR CHINESE FOREIGN DIRECT INVESTMENT

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¶12. (C) Our Dandong contact was only aware of two DPRK investments in Dandong over the last 10 years. Two food processing plants, producing kimchi, have been in various states of disrepair and were not particularly profitable. He said that in China, the DPRK seemed to be more interested in trade than in investment, even though many cities throughout Northeast China sport joint-venture restaurants, hotels, and the occasional factory.

¶13. (C) Our contact said there seemed to be more North Korean delegations and representatives in Northeast China drumming up trade and investment than in his recent memory. He told us that two very large North Korean trade delegations had visited Dandong this year with the dual goals of promoting trade and attracting foreign direct investment (FDI). He said the FDI component was a notable change from the past (Refs D and E give further evidence of this change.)

¶14. (C) Yanbian University FAO Director, Sino-Korean Liu Mingzhu, said that as a result of the successful Tumen River Development Conference in August (Ref F), Yanbian University was hosting some North Korean Academy of Social Sciences (NKASS) researchers working on a plan to further develop additional port berths at Rason. These are in addition to and separate from the Wen Jiabao deals to lease Piers 3 and 4 at Rason. Yanbian University's Dean of the Agricultural College, Sino-Korean Yan Changguo, said that his school enjoys good relations with several North Korean institutions but that the North Koreans are relentless in their requests for financial assistance.

¶15. (C) (NOTE: ConGenOff noticed an unusually visible DPRK presence in Yanbian on this latest visit, unexpectedly running into three separate North Korean parties at different restaurants. One was a North Hamgyong Province Saetbyol County trade delegation that our Longjing contact identified and had met with earlier in the day on December ¶9. On the other two parties, ConGenOff could not tell exactly where they were from, but suspect that one group of two, flanked by Han Chinese professors, were from NKASS. All seemed to be spending a decent amount of money and moving about very visibly. A Yanbian University junior lecturer said many North Korean students studied at his institution and that even more who were dependants of North Koreans on official duty in China were studying at local middle and high schools. The students on campus met regularly on Saturday mornings for political education and generally stayed away from other students. This conversation took place before reports surfaced of a DPRK recall of citizens working or studying in China but suggests that such a recall, if confirmed, would be extremely difficult. END NOTE.)

BORDER SHUTDOWNS IN WINTER: REGULAR AND EXPECTED  
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¶16. (C) January is a blank spot in the PRC-DPRK trade calendar as it is the period, in theory, when the North Koreans stop all formal border trade for at least three weeks to rebalance their books and assess the status of their planned economy before the lunar New Year. In practice, the period represents a time of mutual desperation on both sides of the border for buyers and sellers alike, for those aiming to unload stale product and also for those trying to take advantage of spiking prices. Our Dandong contact said that for a bribe of USD 500-600 per truckload, the North Koreans would open up the bridge at night during this shutdown period and wave in a shipment or two and release some goods as well. This annual winter shutdown is a prominent event in the trading almanac and one that plays a central role in planning inventory and managing stockpiles.

WICKMAN